

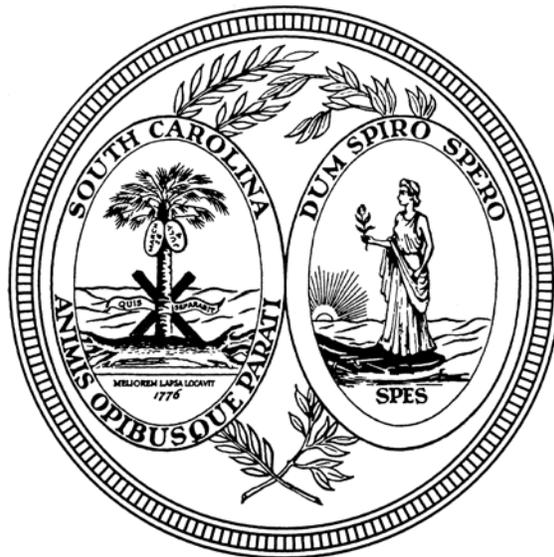


SOUTH CAROLINA GENERAL ASSEMBLY

# Legislative Audit Council

September 2009

## A REVIEW OF THE FAMILY INDEPENDENCE ACT 2006 – 2008



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# Legislative Audit Council

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## **A REVIEW OF THE FAMILY INDEPENDENCE ACT 2006 – 2008**

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# Synopsis

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The Family Independence Act (FIA) requires the Legislative Audit Council (LAC) to report every two years on the success and effectiveness of the policies and programs created under the act. Specifically, we are to review the three outcome measures required by S.C. Code §43-5-1285 – the number of families and individuals no longer receiving welfare, the number of individuals who have completed education and training, and the number of individuals finding employment. This is our seventh report about the family independence (FI) program and its management by the S.C. Department of Social Services (DSS). We found the following:

- There was a significant drop in the number of FI clients from January 2006 through December 2007. The FI caseload in December 2007 was 59% less than it was in January 1997. However, due to the recent downturn in the economy, the caseload increased 18% during the year 2008.
- From January 1, 2006, through December 31, 2007, 43,207 welfare cases were closed, with the majority being closed due to earned income.
- During January 2006 through December 2007, 3,376 FI recipients participated in some required work activity, such as employment, on-the-job training, or community service. As of December 2007, over 4,000 FI recipients participated in an educational activity, such as working towards a high school diploma. In our previous review, we recommended amending S.C. Code §43-5-1285 to require the LAC to report on the number of FI recipients *participating* in educational, employment, and training programs. The law was not amended.
- Based on our recommendation in the previous audit, DSS has made efforts to improve its quality control process to ensure that recipients' work activities were allowable and properly documented. The agency provided statewide training, hired technical assistance staff, revised its policies, and hired additional quality assurance staff.
- During our two-year review period, FI clients obtained 14,710 full-time and 9,841 part-time jobs with an average hourly wage of \$7.31. The majority of jobs obtained by FI clients was in the food service industry. DSS did not track how long FI clients retained their employment.

- In our previous review, we recommended that the General Assembly amend state law to eliminate the requirement that the LAC review the FI program every two years and to require the LAC to review a DSS program every three to five years. The law was not amended.
- We also previously recommended that DSS revise the program outcomes and performance measures for the FI program to include meaningful performance measures in its annual accountability report. DSS has used the same three outcome measures to report on the program and has not revised them.

# Introduction

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## Audit Objectives

The Family Independence Act (FIA) requires the Legislative Audit Council to report every two years on the success and effectiveness of the policies and programs created under the act. This is our seventh report about the family independence (FI) program and the manner in which it has been implemented by the South Carolina Department of Social Services (DSS).

Our objectives for this report are to identify:

- The number of families and individuals no longer receiving welfare.
- The number of individuals who have completed educational, employment, or training programs.
- The number of individuals who have become employed and the duration of their employment.

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## Scope and Methodology

The period of this review was generally January 1, 2006, through December 31, 2007. We reviewed and evaluated the outcomes of the FIA, as required by S.C. Code §43-5-1285.

Information used in this report was obtained from the following sources:

- Interviews with DSS staff.
- Examination of FI client files.
- Financial reports and records.
- DSS outcome measures.
- State and federal laws.

Most of the statistical information used for aggregate data on FI clients was obtained from reports generated by the client history and information profile (CHIP) system. The CHIP system is used to determine eligibility and issue benefits for food stamps and the FI program. We did not perform tests on the validity and reliability of the data from the CHIP system; however, we reviewed the controls over this system and concluded that they were sufficient. DSS staff perform quality control reviews for the food stamp program and also review FI case files and data reports. In addition, the federal government conducts re-reviews from the cases reviewed by quality control.

We also reviewed data from PATS (participation and tracking system), which is primarily used to calculate the work participation rate. In our last audit, we concluded that the information in PATS was not reliable. For this audit, we reviewed a random, nonstatistical sample of cases. While the results cannot be projected to the population, based on our review of these cases, we concluded that the data maintained in PATS is now reliable enough for us to use in this report (see p. 12).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background: Welfare Reform

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In 1996, welfare reform dramatically changed the nation's welfare system into one that requires work in exchange for time-limited assistance. The new federal law created the Temporary Assistance for Needy Families (TANF) program, which replaced the former Aid to Families with Dependent Children (AFDC), ending the federal entitlement to assistance. TANF sets time limits on welfare benefits, requires able-bodied recipients to engage in work or training activities, and requires states to maintain a historical level of state spending known as maintenance of effort (MOE). With these changes to the law came new roles, responsibilities, and expectations, and the end of cash assistance as an entitlement.

States have been given flexibility to design their TANF programs in ways that promote work, responsibility, and self-sufficiency, as well as strengthen two-parent families. States may use TANF funding in any manner "reasonably calculated to accomplish the purposes of TANF." These purposes are:

- To provide assistance to needy families so that children can be cared for in their own homes.
- To reduce dependency by promoting job preparation, work, and marriage.
- To prevent out-of-wedlock pregnancies.
- To encourage the formation and maintenance of two-parent families.

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## South Carolina FI Program

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Welfare reform began in South Carolina with the passage of the Family Independence Act (FIA) in June 1995, which was implemented in January 1996. Under the FIA, the S.C. Department of Social Services is required to:

...fundamentally change its economic services operation to emphasize employment and training with a minor welfare component. To that end, the department shall expand its employment and training program statewide....The agency shall assist welfare recipients to maximize their strengths and abilities to become gainfully employed.

[S.C. Code §43-5-1115]

The FI program transformed South Carolina's welfare system into a transitional program that places a strong emphasis on participants engaging in socially-responsible behavior and becoming self-sufficient through employment and employment-related activities. Except as exemptions apply, the FIA limits cash benefits to no more than 24 months out of 120 months, and no more than 60 months (5 years) within a lifetime. Those determined to be "hardship cases" may be allowed to remain on welfare beyond those time limits. Welfare recipients must also meet participation and other eligibility requirements in order to receive assistance.

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## Requirements Placed on FI Recipients

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In order to receive a welfare stipend (\$270 monthly for a family of three with no income), FI recipients in South Carolina must meet certain requirements.

- Recipients must have a net income at or below 50% of federal poverty guidelines.
- Parents are required to participate in education, training, and/or employment when their youngest child reaches age one.
- Minor recipients must live with their parents or guardians (some exemptions apply).
- Adult recipients must enter into an agreement with DSS which requires them to take certain steps to become more self-sufficient.
- Recipients must cooperate with DSS in trying to establish paternity and collect child support from absent parents.

A participant's failure to meet any of these requirements can result in disciplinary actions or "sanctions" by DSS, which eventually can lead to the loss of FI benefits.

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## Welfare Funding

Federal TANF funds are allocated to the states as block grants. In order to receive the full amount of federal funds allocated to the state, South Carolina is required to spend a certain amount of its own money on recipients. This is known as the state's maintenance of effort (MOE).

Table 1.1 shows TANF revenue and expenditures for FFY 2007 (as of June 30, 2008). South Carolina qualified for additional federal funds from the federal contingency fund as a result of the "food stamp trigger." The food stamp trigger is activated when there is an increase in the number of food stamp cases within a state, as defined by the Social Security Act.

State expenditures on assistance decreased and expenditures on state non-assistance increased since our last audit because of a change in DSS's reporting methods. DSS has started to report other state agencies' non-monetary maintenance of effort funds, such as S.C. Education Lottery scholarships for low-income students, under the non-assistance category, "Other," instead of the assistance category, "Basic Assistance," as it had in the past. "Other" expenditures include such items as emergency assistance and shelters, battered spouse assistance, and some foster care and child protective services.

**Table 1.1**  
**FFY 06-07 Temporary Assistance for Needy Families**  
**Revenue and Expenditures**  
**(as of June 30, 2008)**

	FEDERAL	STATE	TOTAL
<b>REVENUE</b>			
Federal TANF Award	\$99,967,824		
Contingency Funds	\$19,993,565		
Total Revenue	\$119,961,389		
Transferred to Social Services Block Grant	(\$3,219,929)		
Revised TANF Award	\$116,741,460		
<b>EXPENDITURES ON ASSISTANCE</b>			
Basic Assistance	\$26,471,922	\$1,252,628	\$27,724,550
Transportation and Other Support	\$2,381,724	\$1,133,556	\$3,515,280
Sub-Total	\$28,853,646	\$2,386,184	\$31,239,830
<b>EXPENDITURES ON NON-ASSISTANCE</b>			
Education and Training	\$10,243,586	\$10,228,946	\$20,472,532
Other Work Activities	\$3,814,966	\$761,410	\$4,576,376
Child Care	\$0	\$4,085,272	\$4,085,272
Transportation-Other	\$920,547	\$452,507	\$1,373,054
Prevention of Out-of-Wedlock Pregnancies	\$2,756,849	\$0	\$2,756,849
Administration	\$6,716,463	\$4,527,922	\$11,244,385
Information Systems	\$2,003,699	\$1,298,908	\$3,302,607
Other (for example, emergency assistance/shelters and some foster care and child protective services)	\$53,370,405	\$34,646,700	\$88,017,105
Sub-Total	\$79,826,515	\$56,001,665	\$135,828,180
<b>OBLIGATIONS AND REPLACEMENT FUND</b>			
Transitional Services for Employed	\$124,303	\$82,871	\$207,174
Unobligated Balance	\$8,061,299	\$0	\$8,061,299
Sub-Total	\$8,185,602	\$82,871	\$8,268,473
<b>TOTAL PROGRAM</b>	<b>\$116,865,763</b>	<b>\$58,470,720</b>	<b>\$175,336,483</b>

Source: DSS June 2008 ACF-196 Financial Report.

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## TANF Reauthorization

The federal Deficit Reduction Act of 2005 (Pub. L. No. 109-171), which included provisions to reauthorize the Temporary Assistance to Needy Families (TANF) program, was signed into law in February 2006. This reauthorization resulted in significant changes to South Carolina's FI program.

Among the changes as a result of the reauthorization are narrower definitions of work activities in which FI recipients may participate. Each state is also required to produce a work verification plan that shows how it verifies FI recipients' work activities, as well as their number of weekly work hours. South Carolina's work verification plan also calls for more supervisory reviews of FI caseworkers' cases.

States are also required to meet certain participation rate requirements in order to receive TANF funds. States are required to have 50% of all adult recipients and 90% of two-parent families participate in work activities for a certain number of hours per week. However, in 2006 South Carolina excluded two-parent families from the TANF-funded program and placed them into a separate FI state-funded program. Also, the 50% of adult recipients percentage can be decreased by the caseload reduction credit. Prior to reauthorization, the credit was determined by taking the percentage difference between the average 1995 caseload and the current caseload. Now, the caseload reduction credit is based on the percentage difference between the average caseload in 2005 and the current caseload. Since there was a dramatic decrease in caseloads between 1995 and 2005 (see Chart 2.2), this change effectively eliminated the caseload reduction credit in South Carolina. However, DSS reports that it has still been able to meet the federal participation rate, and actually has one of the highest participation rates in the country.

TANF reauthorization also required that South Carolina's disabled FI recipients be taken out of the separate state program (SSP) in which they were placed and returned to the FI population to be counted. This means that disabled individuals would have to perform a work activity for a certain number of hours per week. According to a DSS official, the agency quickly discovered that its FI caseworkers spent most of their time trying to find work activities for these disabled individuals, to the detriment of their other clients. To address this, DSS created a separate FI state-funded program for disabled individuals. This new program does not use any TANF dollars and the state money cannot be counted in South Carolina's TANF MOE funds.

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## Other FI Changes

Since our last FIA audit, DSS has also made other changes to its family independence program. For instance, DSS has contracted with private transportation brokers (through a request for proposals process) to provide around-the-clock recipient transportation to work and childcare (paid for with TANF funds). Previously, DSS was managing transportation. The new transportation brokers can use vans, mini-vans, cars, buses, etc. and are paid a flat rate, instead of mileage. Recipients call their caseworkers and their caseworkers call the brokers to arrange the trips.

DSS has also started imaging (scanning hardcopy files into a computer) all of its case files using free software it acquired from another state. State DSS officials went to local county offices to demonstrate the software to the FI caseworkers. Every time a case is worked on by a caseworker (such as a review), that file is imaged. DSS believes that all of its files will be imaged by the end of this fiscal year. Once all of the cases have been imaged, DSS will move to a universal caseload system, instead of a county caseload system. For example, if one county has a large caseload influx, workers in another county can work on those cases using phone interviews and the new online system. The universal caseloads will be for FI eligibility, as well as food stamps, but caseworkers will still be assigned FI casework files.

Finally, DSS has recently seen an increase in FI and food stamp cases. DSS believes that the number of cases fluctuates based on the economy and thus the increases are a result of the recent downturn in the economy.

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**Chapter 1**  
**Introduction**

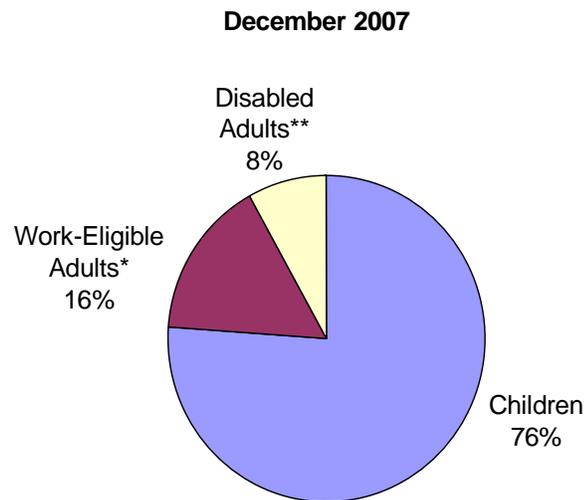
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# Data About FI Recipients

## Families and Individuals on Welfare

As of December 2007, 33,723 individuals were receiving welfare in South Carolina. Of this number, 2,799 adults were categorized as disabled, and 5,243 were categorized as work-eligible, meaning that the recipient is required to participate in a work, education, or training program. Seventy-six percent of family independence recipients were children.

Chart 2.1: Family Independence Recipients



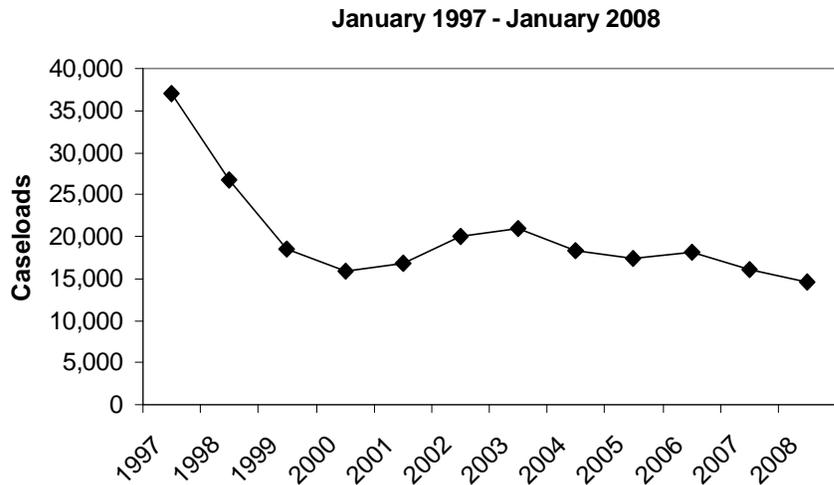
\* Work-eligible adults are required to participate in a work, education, or training program.  
\*\* The program for the disabled is totally funded from state dollars. No federal money is received for the disabled population and it is not counted in the state's federal participation rate.

Source: DSS

## Number of Welfare Recipients

From January 2006 through December 2007, there was a significant drop in the FI caseload. The total welfare caseload was 18,044 in January 2006 and 15,338 in December 2007, a decrease of 15% over two calendar years. The FI caseload in December 2007 was 59% less than it was in January 1997. However, since the recent downturn in the economy, the caseload has increased 18% during the year 2008, ending the year with 17,359 cases.

**Chart 2.2: Changes in the Family Independence Caseload**

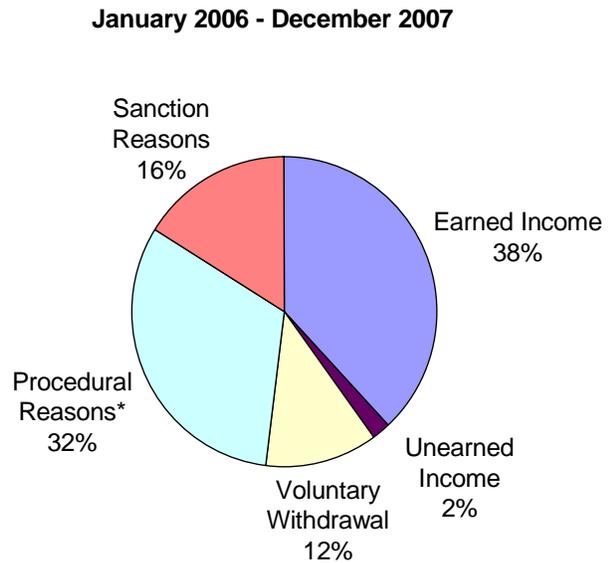


Source: DSS

## People Leaving Welfare

From January 1, 2006, through December 31, 2007, 43,207 welfare cases were closed. The most frequently documented reason for case closure was earned income (see Chart 2.3). The reasons that the 2006 and 2007 cases were closed remained relatively consistent from previous years studied.

**Chart 2.3: Reasons for Family Independence Case Closures**



DSS condensed some of the case closure reasons from our previous FIA audits into the categories reflected in the chart above.

\* This category includes reasons such as federal and state time limits, the inability to locate the recipient, and failure to furnish information.

Source: DSS

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## Recipients Participating in Education and Training

DSS does not maintain data on the number of FI recipients who *complete* education and training programs; therefore, we are reporting on FI recipients *participating* in these activities. We also found that DSS has made some improvements in its quality control processes for the FI program.

In our last review of the FI program, we concluded that the information found in the participation and tracking system (PATS) was not sufficiently reliable to be used to report on a client's education and training. DSS uses this system to track TANF participation and data reporting requirements. For this audit, we reviewed a random, nonstatistical sample of 17 (25%) of 68 cases identified as having FI recipients required to participate in some type of activity in October 2007. Based on this review, we concluded that the data maintained in this system is reliable enough to respond to this measure.

During the years 2006-2007, the federal government required that 50% of all mandatory, or work-eligible, recipients participate in some kind of work, education, or training activity. Child-only cases and disabled recipients in the FI program were exempt from this participation rate. In October 2006, two-parent families were placed in a solely state-funded program, and therefore were no longer required to meet the participation rates. In March 2008, all disabled clients became solely state-funded, therefore eliminating this group from federal work requirements.

During January 2006 through December 2007, 3,376 FI recipients participated in some required work activity, such as employment, on-the-job training, or community service. As of December 2007, over 4,000 FI recipients participated in an educational activity, such as working towards a high school diploma or obtaining a GED.

As of December 2007, DSS's participation rate was 56.8%. According to agency officials, the "countable" activities recipients may participate in have narrowed and the way hours are counted has also changed. For example, in the past, FI recipients were allowed to self report work hours; however, verification of those hours, in the form of pay stubs or employer-signed forms, is now required. The average number of hours a full-time employee worked in 2006 and 2007 was 35.64 and 35.33 hours per week, respectively. Those working part-time averaged 21 hours per week in both years.

The caseload reduction credit, which was previously determined by taking the percentage difference between the average 1995 caseload and the current caseload, was changed as of October 1, 2006. The caseload reduction credit is now based on the percentage difference between the average caseload in 2005 and the current caseload, thereby eliminating most of the caseload

reduction credit. Even with this change, as of March 2009, DSS's rate of 51.7% continued to meet the federal participation requirement.

In our last audit, we recommended that the General Assembly amend S.C. Code §43-5-1285 to require the Legislative Audit Council to report on the number of clients *participating* in educational, employment, and training programs. This section of law has not been amended and DSS still does not track the number of recipients who *complete* education and training. Therefore, we are reporting on our state's participation rate, what activities may qualify, which FI recipients must participate, and the number of hours FI recipients are working.

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## Recommendation

1. The General Assembly should amend S.C. Code §43-5-1285 to require the Legislative Audit Council to report on the number of Family Independence recipients participating in educational, employment, and training programs.

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## Quality Control

In our last review of the FI program, we concluded that DSS did not have an adequate quality control process in place to ensure that clients' work activities were allowable and properly documented. We recommended that DSS ensure that its quality control process monitor clients and caseworkers to verify that clients perform appropriate work or other activities and that caseworkers properly document these activities.

Since our last review, DSS has made efforts to address this issue by:

- Providing statewide training to staff on changes made as a result of the new regulations.
- Hiring technical assistance staff to assist the counties.
- Writing new policies to address required changes.
- Hiring additional quality assurance staff.

Because of the regulatory changes, DSS began requiring better documentation of hours actually worked, as opposed to clients self reporting or projecting hours. New verification requirements, as outlined in the agency's work verification plan, which was approved by the U.S. Department of Health and Human Services, require documentation such as pay stubs and wage information forms signed by employers.

The quality assurance staff of DSS verifies documentation submitted by the counties for a random sample of 300 cases each month. They review documentation for newly-approved cases, on-going cases, and child-only cases. The participation rate for South Carolina is determined, in part, from the review of these cases and submitted to the federal government.

Implementing these changes and hiring additional staff has improved the reliability of DSS's data system. With improved controls in place, DSS can better ensure that the data reported for participation is accurate.

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## Individuals Employed and the Duration of Their Employment

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From January 2006 through December 2007, family independence (FI) clients obtained 14,170 full-time and 9,841 part-time jobs. A full-time job is considered 30 hours or more per week and a part-time job is considered 20 to 29 hours per week. The average number of full-time hours per week was 35.5 and the average number of part-time hours per week was 20.8 for FI clients. The average hourly wage for a job found by an FI client was \$7.31.

The majority of jobs obtained by FI clients were in the food service industry, followed by other service industries, sales, clerical, and healthcare.

During the time period of our audit, DSS did not track how long FI clients retained their employment. However, for the years 2006 and 2007, approximately 3,000 FI recipients whose cases closed due to earned income returned to the FI program within one year.

In our 2007 report, we discussed the Wheels to Work program that referred participants for zero interest loans to purchase vehicles to use for transportation to and from work. DSS is no longer offering the Wheels to Work program, but plans to restart the program in the future.

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## Status of Previous Recommendations

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We concluded in 2002 that since DSS has reported some performance measures on an annual basis to the legislature and the public there is no longer a need for the Legislative Audit Council to review the Family Independence Program every two years. This is our seventh review of the FI program. Also, since January 1997, the number of FI caseloads has significantly decreased from over 36,000 to approximately 15,000 as of December 2007.

Restricting the Legislative Audit Council's review of DSS to just one program and requiring this review every two years may not be the most beneficial or cost-effective use of state resources. Any number of DSS programs could be subject to audit, which could make DSS more accountable to the General Assembly and the public.

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## Recommendation

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2. The General Assembly should amend S.C. Code §43-5-1285 to:
    - Eliminate the requirement that the Legislative Audit Council review the Family Independence Act every two years.
    - Require the Legislative Audit Council to review a Department of Social Services program every three to five years.
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## FI Program Outcomes

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In its FY 06-07 and FY 07-08 accountability reports, DSS has used the same three outcome measures to report on the FI program:

- Eligible families receive Family Independence services in a timely and effective manner.
- Families receiving FI services achieve a level of competence that is commensurate with their abilities while improving family functioning and self-reliance.
- Children in families receiving family assistance do not become recipients as adults.

However, the data presented in response to these measures does not accurately respond to the outcome measures. For example, DSS reports the average monthly caseloads in response to the first outcome measure of services being provided in a timely and effective manner. It is not clear how the number of cases shows that DSS provides services in a timely and effective manner. For the second outcome, DSS reports the number of jobs found by FI recipients and the average hourly wage. This does not address recipients' levels of competence that is commensurate with their abilities.

In an effort to better address the third outcome, DSS conducted a study, with the assistance of the Office of Research and Statistics, Budget and Control Board, to determine if the children of families who received FI services beginning in FY 93-94 have become adult recipients. Results from the study indicate that for calendar years 2006-2007, approximately 2% of all TANF clients had been listed as a child in a previous case.

In FY 09-10, DSS will be receiving a federal grant of \$250,000 from the Administration for Children and Families' Office of Grants Management. According to a DSS official, the preliminary plan is to use this grant to determine which participation activities benefit recipients the most in maintaining their jobs. An agency official stated that this type of information would be valuable to DSS. It could also be a measurable outcome on which the agency could report.

According to an agency official, there are better measures to report the status of the FI program. These include the state's participation rate (see p. 12), the number of sanctions, and the job retention of clients. At the time of our review, the measures for the FY 08-09 accountability report had not been finalized.

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## Recommendation

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3. The Department of Social Services should revise the program outcomes and performance measures for the family independence program to include meaningful performance measures in its annual accountability report.

# Agency Comments

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**Appendix**

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# DSS

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*Serving Children and Families*

KATHLEEN M. HAYES, PH.D.  
STATE DIRECTOR

MARK SANFORD  
GOVERNOR

June 26, 2009

Mr. Thomas J. Bardin, Jr., Director  
SC Legislative Audit Council  
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Dear Mr. Bardin:

Thank you for providing me the opportunity to review and comment on the Legislative Audit Council's evaluation entitled, *A Review of the Family Independence Act 2006-2008*, which was performed pursuant to S.C. Code §43-5-1285. Overall, we concur with your findings, but would like to provide some insight and clarity on some issues and respond to your recommendations.

The Family Independence program continues to perform well even in times of economic stress for the state and nation. Although there has been a 59% decrease in the FI caseload from January 1997 to December 2007, due to the economic downturn, the FI caseloads have increased by 18% in 2008 and continue to rise. When caseloads go up, there is no corresponding increase in federal funding. This means that there was more demand for stipends as well as support services such as transportation and child care. Externally, when the economy is sluggish there are less work opportunities for our clients.

DSS has been able to achieve a measure of success by continuing to assist our FI participants in obtaining both full-time and part-time jobs with an average hourly wage of \$7.31. We are proud of these results and commend the FI staff, who work hard to effect the best possible outcome for our participants in their quest for self-reliance.

The first recommendation in the audit is for the General Assembly to amend S. C. Code §43-5-1285 which requires the Legislative Audit Council to report the number of clients who *complete* education and training. We support you in your efforts to change the law to state "clients who are *participating* in education and training activities". The Family Independence Act, which was implemented in 1996, limits cash benefits to no more than 24 months out of 120, with some exceptions. It is important to note that some education and training activities cannot be completed within the two years allotted by state law. Additionally, as noted in a previous review, TANF reauthorization removed the flexibility previously granted to states in the original welfare reform legislation. The legislation placed additional emphasis on participation rates and provided narrowed definitions of activities that states may count as a work activity.

Thomas J. Bardin, Jr  
June 26, 2009  
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Recommendation two requires legislative action, and would remove the requirement for an audit of Family Independence every two years. DSS will support the General Assembly's desires regarding review of the agency.

Recommendation three states that DSS should revise the program outcomes and performance measures for the Family Independence program to include meaningful performance measures in its annual accountability report. We try to balance the amount of information provided in the accountability report with issues of readability. However, we are always reviewing our measures to ensure they are meaningful, and should the General Assembly legislatively eliminate the requirement for a biannual audit, we will be glad to include an expanded TANF report in our accountability report. In addition, any member may informally request information at any time.

Thank you for including this response as an appendix to your report. As always, we view the findings of your staff as a useful tool as we strive to improve our programs to better serve the low-income families of SC.

Sincerely,



Kathleen M. Hayes, Ph.D.  
State Director

KMH/mmp

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